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THE TAX-FREE PELL GRANT ACT

Simplifying access to higher education assistance

Sponsored by Sens. Chuck Grassley (R-Iowa), Sheldon Whitehouse (D-R.I.) and Ron Wyden (D-Ore).

Problem

The lack of coordination between the Pell Grant program and the American Opportunity Tax Credit (AOTC) makes tax filing [complicated](#) for students and their families, often leading many to forego tax benefits for which they qualify. Many students eligible for a Pell Grant are also eligible for education tax credits. In order to claim those tax benefits, Pell Grant recipients may need to use some or all of their Pell Grant to pay for living expenses rather than tuition. The portion used for living expenses, however, is taxable. Calculating the optimal amount of their Pell Grant to include in taxable income so that the tax hit does not exceed the additional tax credit they qualify for is very complicated. This issue primarily impacts students at low-cost universities like community colleges because it only affects those whose tuition and related expenses are less than \$4,000, after accounting for scholarships. Typically, the estimated 730,000 students who may be in this position do not have access to sophisticated tax advice to help them get the most benefits.

Solution

The *Tax-Free Pell Grant Act* would simplify higher education assistance by better coordinating Pell Grants with higher education tax incentives. It would no longer require students to subtract Pell Grants from the tuition and related expenses for which they can claim tax credits, and fully exclude Pell Grants from taxable income.